

## Corporate Governance Impact on Financial Performance of Indian Retail Industry

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### **Abstract:**

*A company's systems and guiding principles are referred to as its corporate governance. The company are often directed by CG practices. This paper shows corporate governance impact on financial performance among retail firms of India. Set of 5 retail firms are considered and analysed on corporate governance practices followed by the firms. Firms are selected based on their market share. The paper focuses on Board size, Number of Audit committee meetings held and number of women directors and dependent variable are ROA. Regression is considered for the analysis.*

**Keywords:** Corporate Governance (CG), Retail firms, Board size, Women Directors, Audit committee meetings, Financial Performance, Return on Assets (ROA).

### **1. Introduction:**

Corporate Governance is abuzz word now in the Indian Market. Most of the times firms relay on advisory firms. Financial performance and Board of Directors are the important aspects of the CG and to maintain interest among investors. BOD is the vital element of corporate governance, It is evident that the structure must be flexible to accommodate the basic duties given to it, including supervising and monitoring, opportunistic executive behaviour, and offering guidance to decision-makers to advance the administration of the company. (Purushottam N Vaidya 2019). “Rodzi (1998) defined Corporate Governance as the process and structure used to direct and manage the business and affairs of a corporation with the objective of enhancing long-term value for shareholders and financial viability of the business”. Monks Minnow (1995) says “Corporate Governance as the relationship between shareholders, Board of Directors and Management in deciding performance of a company”.

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Many committees were established by SEBI —“Kumar Mangalam Birla Committee in 2000, Narayana Murthy Committee in 2003 and Adi Godrej Committee in 2012 — to come up with more elaborate governance norms for India Inc”. A new clause has also been authorised by SEBI a number of changes to the Listing Agreement that would increase the transparency of transactions for listed businesses and aid minority stakeholders in influencing management's decision-making . The aforementioned changes took effect on October 1st, 2014. Companies Act of 2013 presented various innovative open procedures that help stakeholders, directors, and corporate management.

The financial statement analysis gives the better understanding of the firm's position. Board size being one major part of any organisation where decision is taken. Effectiveness of audit committee gives a positive impact among the investors. Audit committee should prepare very good financial statement. Women Directors in the board are an added advantage for the company's performance.

A firm system cannot be completely protected by governance. The business operates in a complex business environment, which is distinctive of it. It is still impossible to authenticate the company's set of rules. A company must review its CG practice time to time. A good framework entice more investors to put money into the business, and the position of the firm is essential to making decisions by investors, suppliers, consumers, and shareholders etc.,

Corporate Governance and Its Importance has emerged as a result of increased concern over noncompliance with industry requirements. The term "sense" relates to the magnitude of a financial situation. Goals are being pursued or have been achieved in Finance risk management. So, you have it there. assessing the effects of a company's policies Financially speaking, operations. Most of the time, good corporate governance will encourage additional investors to fund a company because it helps to safeguard their assets. Accountability and financial reporting management and the board of directors of business losses inflicted on the public speculators in a larger sense.

“Improvement in corporate governance has lead to significant increase in investment by foreign investors and profitability of Indian companies” (Patibandla, 2006)

### **Review of literature:**

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The performance of the firm is measured as the essential part of the organization.

Bhagat S. & Bolton B. (2008) added three contributions for literature on CG and performance of Firm. First, it found that governance, Members of board, stock ownership, and chairperson are associated with higher operational performance. Second, Measures of CG are not relationship with market performance of the stock. 3<sup>rd</sup>, “poor firm performance, the probability of disciplinary management turnover is positively correlated with stock ownership of board members, and board independence”. Good corporate governance structure helps the firm to perform better (Shivani et al. 2017). The majority of corporate scandals highlighted how crucial excellent corporate governance is to enhancing businesses' performance and long-term competitiveness (Ehikioya, 2009). The CG facilitates the business operation through effective monitoring and efficient control line (Arora and Bodhanwala, 2018). “Majority of the CG variables have a strong positive impact on firm performance” (Imran Haider M., Hassan H.A. 2013). Aswathy M. & Chandra M. (2018) considered the variables like (PB ratio), Return on Equity (ROE) characteristics of CG - board composition, duality of CEO, and size of board , to measure firm performance. The study analysed the data by including certain firm specific variables - financial leverage, growth in sales, and asset turnover. It measured the impact of the structure of CG on performance by using a “panel data OLS regression model for a sample of 30 BSE listed companies”. It found that Duality of CEO and Size of board (CG factors) have a negative impact on business performance. It did not found any notable effect that board composition may have on a company's performance. It result suggested that the firms should To guarantee optimal performance, the roles of chairperson and CEO should be distinct. Also, was discovered that the asset and leverage turnover significantly improve business performance. Puneeta G. (2018) concluded that the Indian companies have developed significantly towards good corporate governance after laying down the new reforms. The mandatory rule of spending 2% net profits on corporate social responsibility resulted in the philanthropic initiatives bu the companies, which yields good returns on social investment. Investors started recognizing good CG companies. The study, however, found little evidence of a connection between CG reforms by regulators and companies' performance. It also found that majority of the Indian companies are maximising the advantages of putting effective CG strategies in place that could boost their financial performance. The study was based on the published data of the top hundred companies. Sriram P. (2020) constructed the index of

corporate governance by considering three sub-indices – audit committee, ownership structure, and board, and examined 87 companies listed on Nifty 500. The A study discovered a direct connection between corporate governance and business performance. “Mohamed et al., (2016) focused on corporate governance practices among top 100 public listed companies in Malaysia from 2008 to 2012, and the relationship between corporate governance practices with firm performance. Analysed that board size has significantly weak negative relationship with ROA but it was found to be insignificant to ROE”.

**Objective:**

To understand how corporate governance affects the financial success of Indian retail businesses.

**Hypothesis:**

H01: The number of board members and ROA do not significantly correlate with one another.

H02: The committee Audit meeting and return on assets do not significantly correlate.

H03:Ha1: Women Directors and return on assets have no meaningful link.

Variables :

A. Dependent:

1. ROA = total assets net income.

B. “Independent Variable”

1. Size of board = No. of members in the board.

2. Meetings held by the audit committee in a given year.

3. Total No.of female members in the board .

$$ROA_{it} = \alpha + \beta_1 BS_{it} + \beta_2 ACM_{it} + \beta_3 WD_{it} + \epsilon_{it}$$

Analysis techniques:

This paper is about on how CG affects the success of Indian retail businesses financially. Data collected for analysis is from the 2016 to 2020. In this “ROA and size of the Board are compared, Audit Committee Meetings, and number of women directors in the board size”.

“All retail companies listed on the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE) are included in the sample”, and these companies were chosen based on market capitalization. Missing or unavailable data resulting from a new listing status is not going to be part of the sample. The paper is therefore relied solely on secondary information. Data pertaining to the sample companies was acquired from each company's annual report. (SPSS) was used in this study's statistical analysis to assess the hypotheses.

“Descriptive statistical analysis, a correlation test, and regression analysis had all been carried out using SPSS”.

Details	Avenue Super mart	Trent	Aditya Birla Fashions	V-mart	Shoppers stop
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Market Cap in Cr	206572.11	30483.05	18929.03	5562.28	2663.44
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Table -1 : Selected retail companies and their Market capital.

Table-1 describes the market capitalization of the company the companies with the insufficient data are not included.

S.no	“Ratio”	‘Mar 20’	‘Mar 19’	‘Mar 18’	‘Mar 17’	‘Mar 16’
Avenue super	Return on Assets (%)	10.77	12.88	14.27	8.22	10.31
Trent	Return on Assets (%)	2.86	4.97	5.04	4.88	3.76
Adityabirla fashions	Return on Assets (%)	-1.49	4.85	2.05	1.06	-2.25
V-Mart Retail	Return on Assets (%)	4.03	9.75	14.13	8.94	7.21
Shopper’s Stop	Return on Assets (%)	-3.46	3.18	0.65	-1.08	1.31s

Table-2:Selected companies Ratio’s .Source:<https://www.moneycontrol.com/financials>

S.no	CG	2020	2019	2018	2017	2016
Avenue Super	Board Size	7	7	7	6	6
	ACM	6	4	4	5	5
	W.D	2	2	2	1	1
Trent	Board Size	10	10	10	10	11
	ACM	8	7	7	6	6
	W.D	1	1	1	1	1
Aditya Birla Fashion	Board Size	8	7	7	6	5
	ACM	6	4	8	4	6
	W.D	1	1	1	1	1
V-Mart Retail	Board Size	6	6	5	5	5
	ACM	4	4	5	4	4
	W.D	1	1	1	1	1
Shopper’s Stop	Board Size	11	12	13	11	11
	ACM	4	5	4	5	5
	W.D	1	1	2	1	1

Table: 3 Company Corporate Governance data. Source: Companies Annual Reports.

**Descriptive Method:**

For regression the variables used are analysed with the help of the descriptive statistics. The accounting-based measures for the retail firm from 2016 to 2020 are mentioned in table-1. The mean of ROA for the sample 2016 to 2020 was 5.0736. ranging from -3.46 to 14.27. Independent Variables which are considered from the CG are “Number of members in the board, No. of audit committee meetings and Women directors in the board”. ‘The mean value

of the size of the board is 8.08' and the board can have a maximum of 13 members or a minimum of 5 members. The mean value of Audit committee meetings is 5.16 and minimum number of audit meetings held during 2016 to 2020 among the selected firms is 4 and maximum meetings held are 8. The Mean value for women directors is 1.16 and minimum number of women directors are 1 and maximum number of women directors are 2.

	'N'	Min	Max	'Mean'	'Std. Deviation'
ROA	25	-3.46	14.27	5.0736	5.06817
board size	25	5	13	8.08	2.5318
audit committee meeting	25	4	8	5.16	1.31276
women directors	25	1	2	1.16	0.37417
Valid N (listwise)	25				

Table no 4: Descriptive analysis

ROA:

Model	'R'	'R Square'	'Change Statistics'			'Durbin-Watson'
			'R Square Change'	'F Change'	'Sig. F Change'	
1	.663 <sup>a</sup>	0.439	0.439	5.48	0.006	1.244
a. "Predictors: (Constant), women directors, board size, audit committee meeting"						
b. "Dependent Variable: ROA"						

Table no: 5 ROA Summary of the model

The table gives the information like adjusted R square value is 0.439 the model can collectively determine Q ratio by 43.9% and model have value of f 5.48 "the model is significant at  $\alpha = 0.05$  and significant change in f is 0.006 this model is strong". The Durbin-Watson value is less than 2 which is makes the model good.

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	6.562	5.039		1.302	0.207		
board size	-1.061	0.336	-0.53	-3.155	0.005	0.947	1.056

audit committee meeting	0.026	0.664	0.007	0.04	0.969	0.904	1.106
women directors	5.99	2.289	0.442	2.617	0.016	0.935	1.069

Table-6 Regression of ROA:

Table-6 regression analysis, the significance is obtained at 0.05 model show the relationship among characteristics corporate governance.

Hypothesis 1: There is a no substantial relationship among Size of the Board and return on assets. The head count of members in the board (BSIZE) have a negative connection with market performance by means of p-value = 0.005( $p > 0.05$ ). Hence hypothesis 1 can be rejected more number of people in board cannot improve the performance of firm.

Hypothesis 2: The audit committee meeting and return on assets do not significantly correlate. The Audit committee meetings do have a positive connection with market performance by means of p-value = 0.969 ( $p < 0.05$ ). So, hypothesis 2 is accepted as more audit committee meetings can improve the corporate performance.

Hypothesis 3: There is a no considerable connection between head count of women directors and return on assets. The variable number of women directors has a significant negative connection by means of market performance with p-value equal to 0.016 ( $p > 0.05$ ). So, hypothesis 3 can be rejected, more number of women directors cannot improve corporate performance.

**Conclusion:**

Hypothesis statement	P	Result
There is a no substantial relationship between head count of members in the board and return on assets	0.005	Rejected
The audit committee meeting and return on assets do not significantly correlate	0.969	Accepted
Women Directors and return on assets have no meaningful link.	0.016	Rejected

Corporate governance being the important aspect for the firm's development the paper gives the information related to the CG impact on financial performance among the retail firms of India. The study analyzed financial performance among the 5 selected Indian retail firms. The data collected for the period of 2016 to 2020.

Limitations and future research:

This particular study elucidates the impact of selected CG variables on selected retail firms financial position. The study considered only the internal factors but not the external factors. The study only considered the top 5 listed retail companies.

The paper considered only selected CG parameters and limited ratios, Future researchers can analyze by adding more parameters.

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